

Service Quality and Customer Satisfaction (The Case of Cooperative Bank of Oromia, Addis Abeba, Ethiopia)

BELAY ADAMU DUNFA

Lecturer of Marketing management, College of Business and Economics, Department of Marketing Management, Ambo University

Abstract

In any business-to-customer (B2C) type of environment, satisfying a customer is the ultimate goal and objective. This is perhaps due to the fact that banks sometimes do not really understand of what actually goes on in a customer's mind. As such, this predicament has provided as a challenging task to most business conglomerates that places strong emphasis on customer satisfaction. The general objective of this study is to determine the relationship between service quality and customer satisfaction, and also investigate the strategies utilized by the bank to deliver exceptional service quality and customer satisfaction through customer service. It is also clear from this research that customer service has impact on service quality perception and customer satisfaction. In this research, the SERVQUAL instrument developed by Parasuraman (1985), has been applied in designing the questionnaire by using five dimensions of service quality: tangibility, reliability, responsiveness, assurance, and empathy. Questionnaires are distributed to 258 customers and 42 employees of the two selected area branches. The questionnaire aimed to determine the level of customers' expectation and perception towards the service quality of the bank. The results revealed that the assurance and empathy dimensions raised the highest level of expectation, whereas the assurance, empathy, and tangibility dimensions fulfilled the highest level of perception. The study also investigates the dimensions and their levels of service quality that have significant effect on customer satisfaction in CBO. The findings showed that the dimensions of service quality such as tangible, reliability, responsiveness, assurance, and empathy are positively correlated to customer satisfaction. Data collected from respondents was analyzed by using qualitative analysis, descriptive, correlation, and regression analysis.

Keywords: Service Quality, Customers' expectation and perception, Customer Satisfaction, Customer Gap.

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I. Introduction

Service quality is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Gronroos, 1984; Parasuraman et al., 1985, 1988). A number of experts define service quality differently. Parasuraman et al. (1985) define it as the differences between customers, expectation of services and their perceived service. If the expectation is greater than the service performance, perceived quality is less than satisfactory and hence, customer dissatisfaction occurs. Lewis and Mitchell (1990), Dotchin and Oakland (1994), and Asubonteng et al. (1996) define service quality as the extent to which a service meets customers' need and expectation.

Customer service is the service provided in support of a company's core products/services. Customer service most often includes answering questions, taking orders, dealing with billing issues, handling complaints, and perhaps scheduling maintenance or repair. Customer service can occur on site (as when a retail employee helps a customer find a desired item or answers a question), or it can occur over the phone or via the internet (Valarie A. Zeithaml and Mary Jo Bitner)

Service quality, according to Parasuraman et al. (1994a, p. 202), is "the degree of discrepancy between customers' normative expectations for the service and their perceptions of the service performance". A conceptual model of service quality which includes five gaps is proposed by Parasuraman et al. (1985), and Zeithaml et al. (1988). This conceptual model is useful in that it is easy for practitioners to understand service quality components (Chu-Hua Kuei, Min H. Lu, 1999). However, for service quality improvement, a number of issues need to be examined and resolved first.

The gap model positions the key concepts, strategies, and decisions in services marketing in a manner that begins with the customers and builds the organization's tasks around what is needed to close the gap between customer expectations and customer perceptions. The central focus of the gaps model is the customer gap, the difference between customer expectations and perceptions. Firms need to close this gap-between what customers expect and receive-in order to satisfy their customers and build long-term relationships with them. To close this

all-impact customer gap, the model suggests that four other gaps-need to be closed.

Quality and customer satisfaction both have long been recognized as crucial role for success and survival in today's competitive market. Considerable evidence exists in literature that supports relationship between company's performance and level of satisfaction reported by customers (Anderson et al., 1994; Bolton, 1998). Therefore, it is argued that customer satisfaction should be considered the ultimate goal for all firms (Morgan et al., 2005; Mittal et al., 1999).

Therefore experts say that customer satisfaction should be the fundamental principle of all the service firms as it is the key indicator of firm's performance. As said by Sakthivel et al., (2005) Customer loyalty and satisfaction are proved to be the major determinant for long term survival and financial performance of the company.

Hence, the motivation behind this study is the impact of service quality dimension of CBO on customer satisfaction. The study was conducted based on SERVQUAL model.

II. Statement of the Problem

The financial services industry is changing rapidly (Firdaus Abdullah, Rosita Suhaimi, Gluma Saban and Jamil Hamali, 2011). Technology, government regulation, and increasing customer sophistication are forcing financial service institutions to re-evaluate their current business practices. Financial institutions across the globe are re-examining how they are meeting their customer's needs today and developing business plans needed to align them strategically to remain competitive and profitable in the future. Service quality in banking has recently become a topic of interest for academicians and researchers alike despite being considered markedly important over the years. Providing excellent service quality and high customer satisfaction is the important issue and challenge facing the contemporary service industry. High customer satisfaction and loyalty have long been key concerns for operational management in service industries. Consequently, customer orientation, namely, understanding customer requirements and expectations, is the first step service providers must take to enhance service quality. Service quality plays a critical role in a firm's competitive advantage. Studies investigating service quality have extensively examined service quality measurement to assist practitioners in effectively managing quality service. Service quality remains a critical measure of organizational performance for banking institutions and will continue to be at the forefront of services marketing literature and practice. The enthusiasm is mostly kept high by the fact that a high service quality offered often leads to customer satisfaction, loyalty, and other positive behavioral outcomes such as greater willingness to recommend the service providers to others, lesser complaints, and improved customer retention.

Because customer satisfaction and customer focus are so critical to competitiveness of firms, any company interested in delivering quality service must begin with a clear understanding of its customers (Valarie A. Zeithaml and Mary Jo Bitner, 2003). The primary objective of service providers and marketers is identical that of all marketers: to develop and provide offerings that satisfy consumer needs and expectations, thereby ensuring their own economic survival. In other words, service marketers need to be able to close the customer gap between expectation and perception. To achieve this objective, service providers need to understand how customers choose and evaluate their service offerings.

At present, most Ethiopia banks are affected by the network failure; high waiting time and system disturbance which caused belated service delivery time. Even, if the CBE adopt rapid improvement by Implementation of BPR. Still, there is customer complaint of network failure, power interruptions, and low accessibility of ATM machines in the branches of CBE (Ayenew, 2014). Numerous studies conducted on service quality and customer satisfaction in the banking industry, but only some studies have been done on CBO. Thus, keeping the above discourse in, this study is intended to look the effect of service quality on customer satisfaction in case of Cooperative Bank of Oromia. Based on this, the study aims to answer the following questions:

1. How Tangibility effects customer satisfaction in Cooperative Bank of Oromia?
2. How Reliability effects customer satisfaction in Cooperative Bank of Oromia?
3. What is the effect of responsiveness on customer satisfaction in Cooperative Bank of Oromia?
4. What is the effect of assurance on customer satisfaction in Cooperative Bank of Oromia?
5. What is the effect of empathy on customer satisfaction in Cooperative Bank of Oromia?

Research Hypotheses

Based on the comprehensive related literatures review and empirical evidence the following refined hypotheses were developed.

H1: Tangibles has a positive and significant effect on customers' satisfaction.

H2: Reliability has a positive and significant effect on customers' satisfaction.

H3: Responsiveness has a positive and significant effect on customers' satisfaction.

H4: Assurance has a positive and significant effect on customers' satisfaction.

H5: Empathy has a positive and significant effect on customers' satisfaction.

III. Literature Review

Kotler (1997) defines service as any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product”.

Gronroos, 1984; Parasuraman et al., 1985, 1988; stated that Service quality is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed.

In recent years, it is commonly agreed that service quality is the outcome of evaluations made by the customers. The general logic is obvious, since the customer’s own evaluation influences his/her future behavior such as returning next time or positive accounts to relatives (Zeithaml et al., 1990; Grönroos, 1984; Brown et al., 1991). This fact indicates that service companies cannot solely deliver service according to internal standards which might not match the customers’ expectations. Moreover, most service quality writers agree that the customers evaluate service quality by the outcome of a comparison between their expectations of the service performance and their perception of the actual service received.

Empirical Studies

Studies show that the overall experience with the service quality results in customer satisfaction which leads to customer loyalty. Where the overall service quality (as perceived) is viewed as a combination of core and relational aspects. In the service literature, core and relational quality are the most basic elements of services. Where core is “what is delivered” and relational is “how it is delivered” (*cited in sara*)

Tizazu conducted a research entitled the effect of service quality on customer satisfaction in selected private banks in Addis Ababa by using structured questionnaire derived from SERVQUAL model. The result indicated that unlike responsiveness the four service quality dimensions (tangibility, empathy, assurance and reliability) have positive and significant effect on customer satisfaction. Furthermore, the service quality dimensions (tangibility, reliability, assurance and empathy) significantly explain 80% of the variations in customer satisfaction in private banks in Addis Ababa.

There are researchers like Hurley and Estelami (1998) who states that service quality and satisfaction are distinct constructs, and there is a causal relationship between the two, and the impression about the quality of service influence emotions related to satisfaction which, in turn, affect future purchase behavior. Also customer satisfaction is viewed as the overall assessment of the service provider (Anderson et al., 1997).

Million Tsegaye (2017) conducted a research on The Effects of Service Quality on Customer Satisfaction (The Case of Ethiopian Airlines Cargo Import). According to the findings of the study all the five dimensions of service quality have shown a significant positive effect on customer satisfaction. More the findings of the regression analysis indicate that empathy and tangibility have the largest impact on customer satisfaction.

Mesay (2012); aimed at assessing the service quality of private banks and its impact on customer satisfaction. The study also tried to test the relationship that exists between customer satisfaction and their loyalty. The mean score values for service quality dimensions was between 2.6 and 3.4. This indicates that improvements in service quality should be conducted on all the five service quality dimensions, especially the dimensions of responsiveness and empathy. This study also found a positive relationship between all service quality dimensions and customer satisfaction.

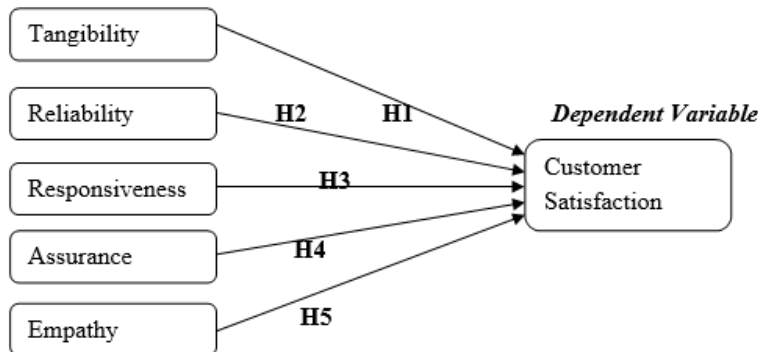
Dawit (2015); used gap model for analysing customer’s perception of Service quality in two selected Insurance companies. His finding reveals that the customers’ expectations are not met in EIC has higher average negative gap scores for all dimensions. Reliability, Responsiveness and Empathy have higher negative gap score than NIC while tangibility and Assurance have a higher negative score in NIC than EIC Both companies should take key strategic measures such as strategic human resource management, application of latest technology and advanced management system so that positive dimensions in all attributes can be obtained.

Conceptual Framework

Thus, based on the comprehensive related literatures review and empirical evidence conducted by other researchers and developed countries context, the following refined conceptual framework was developed.

Figure 1: Conceptual Framework

Independent Variables



Source: Valarie A. Zeithaml and Mary Jo Bitner (2003)

IV. Research design

In this study, the researcher used a cross-sectional survey-type research design. A survey design provides a quantitative or numeric description of trends, attitudes or opinions of a population by studying a sample of that population.

The researcher employed probability, lottery method to select the two branches (Finfine and Qarsa branch) of the bank from Addis Abeba City Administration and non-probability sampling technique (convenience sampling technique) was used to select respondents (customers of the bank) and collect the necessary information from them in order to carry out the study. The researcher used the sampling techniques to determine the total number of respondents and distribute questionnaires at the convenience of the researcher because respondents are relatively similar and are selected as they happen to be in the right place at the right time (Creswell, 2003). Inferential statistics were used for analyzing the quantitative phase of this research. The data analysis is carried out by logistic regression and the data are presented in table and mathematical mode.

In this study quantitative survey was used as data collection method. A questionnaire will be prepared to get idea about the customers’ experience on service. For understanding the importance and satisfaction of each service quality dimensions a 5-scale questionnaire is used (1=very satisfied, 3=neutral, 5=very unsatisfied).

V. Result and discussion

Table 1: Overall Customer Satisfaction Level

Question	Mean	Std. Deviation
Overall Customer Satisfaction	4.15	.409

Source: Survey Result

Customer Satisfaction towards Service Quality

The average perceptions and expectations (on the scale from 1 to 5) of the proposed 22 Service Quality issues are rated by the respondents. Table 2 presents the item statistics, which is sorted by occurrence in the questionnaire.

Table: 2 Overall means score of customer satisfaction on service quality and the Gap between customers’ expectation and perception

S/N	Service Quality Dimensions	Mean		Gap P – E	Rank
		Perception	Expectation		
1	Tangibility	4.25	4.06	0.19	1 st
2	Reliability	4.03	3.95	0.08	3 rd
3	Responsiveness	4.02	3.87	0.15	2 nd
4	Assurance	4.29	4.26	0.03	4 th
5	Empathy	4.27	4.25	0.02	5 th
	Over all mean score	4.17	4.08	0.09	

Source: Survey Result

Table 2 above demonstrates the gap between customers’ expectation and perception. The study shows that the overall level of perception of tangibility, reliability, responsiveness, assurance, and empathy are higher than level of expectation.

Correlation Analysis

Table 3: Pearson’s correlation

Service Quality Dimensions	Customer Satisfaction
Tangibility	.294**
Reliability	.261**
Responsiveness	.252**
Assurance	.261**
Empathy	.135*
Overall Service Quality	.456**

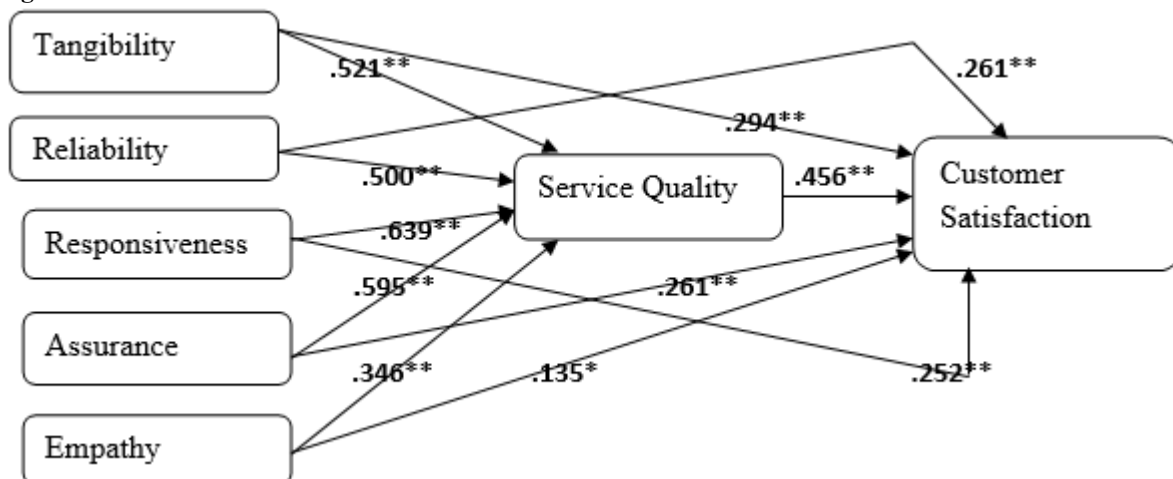
*correlation is significant at the 0.05 level (2-tailed)

**correlation is significant at the 0.01 level (2-tailed)

Source: Survey Result

From table 3 tangibility and customer satisfaction had a high correlation of .294 and the value of R²=.086. This indicates that variability in customer satisfaction can be explained by tangibility dimension which accounts 8.6%. Although tangibility highly correlates with customer satisfaction, it can account for only 8.6% of variation in customer satisfaction. 91.4% of variability in customers’ satisfaction is explained by other factors. Still variability in customer satisfaction can be accounted by assurance (6.8%), responsiveness (6.3%), reliability (6.8%), and empathy (1.8%).

Figure 1: Correlation Model



Source: Survey Result

Figure 1 indicates that Responsiveness shows the highest positive correlation ($r=.639^{**}$, $p<0.01$) with overall service quality and positively correlated with customer satisfaction ($r=.252^{**}$, $p<0.01$) and Assurance demonstrates the second highest positive correlation ($r=.595^{**}$, $p<0.01$) with overall service quality and correlates with customer satisfaction ($r=.261^{**}$, $p<0.01$). Empathy reveals the least positive correlation ($r=.346^{**}$, $p<0.01$) with service quality and with customer satisfaction ($r=.135^*$, $p<0.01$).

Generally, tangibility has been found to be significantly and positively correlated with customer satisfaction ($r = .294^{**}$, $p< .01$), reliability is found to be significantly and positively correlated with customer satisfaction ($r = .261^{**}$, $p< .01$), and responsiveness is found to be significantly and positively correlated with customer satisfaction ($r = .252^{**}$, $p< .01$). Assurance is found to be significantly and positively correlated with customer satisfaction ($r = .261^{**}$, $p< .01$), and Empathy is found to be significantly and positively correlated with customer satisfaction ($r = .135^*$, $p< .05$).

Table 1: Regression Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)1	4.300	.042		102.351	.000
Tangibility	.107	.021	.187	5.092	.000
Reliability	.190	.024	.327	7.981	.000
Responsiveness	.362	.045	.376	8.144	.000
Assurance	.080	.034	.113	2.353	.019
Empathy	.169	.047	.149	3.608	.000

a. Dependent Variable: Customer satisfaction

Source: Survey Result

The relative importance of the significant predictors is determined by looking at the standardized coefficients. Tangibility has the highest standardized coefficient and the lowest significance, which means tangibility is the best predictor. Analyzing the whole table results, the order of significance for predictors of overall customer satisfaction is tangibility, reliability, assurance, empathy, and responsiveness.

Regressions fit a predictive model to data and use that model to predict the values of dependent variable from one or more independent variables (Andy, 2005). Linear regression estimates the coefficients of the linear equation, involving one or more independent variables that best predict the value of the dependent variable.

In multiple regressions we use an equation of:
 $y_i = (b_0 + b_1X_1 + b_2X_2 + \dots + b_nX_n) + E_i$

Where: y=the outcome variable

b_0 =the coefficient of the first predictor (X_0)

b_1 =the coefficient of the first predictor (X_1)

b_n =the coefficient of the nth predictor (X_n)

E_i = the difference between the predicted and observed value of y for the *ith* participant

Therefore, in this study the following multiple regressions were used:

$$CS_i = b_i + b_1T_i + b_2R_i + b_3RES_i + b_4A_i + b_5E_i$$

$$Y = .717 + .217X_1 + .191X_2 + .140X_3 + .172X_4 + .159X_5$$

Where: CS_i (y) =customer satisfaction

RES(X₃) =responsiveness

T(X₁) =tangibility

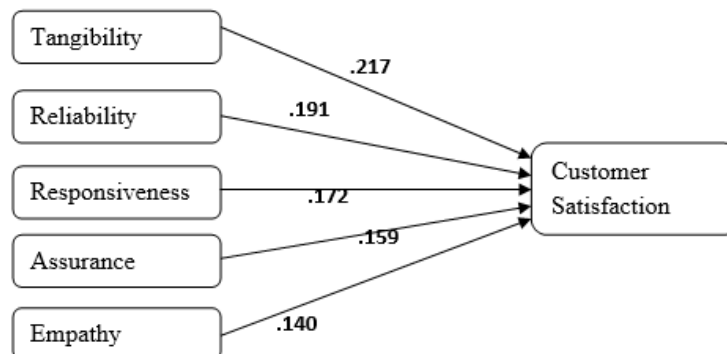
A(X₄) =assurance

R(X₂) =reliability

E(X₅) =empathy

Multiple R is a correlation between the observed values of y the values of y predicted by the multiple regression models. Therefore, large values of the multiple R represent a large correlation between the predicted and observed values of the outcome. The model summary table reports the strength of the relationship between the model and the dependent variable, overall customer satisfaction. R, the multiple correlation coefficients, is the linear correlation between the observed and model-predicted values of the dependent variable. R Square, the coefficient of determination, is the squared value of the multiple correlation coefficients.

Figure 2: A quality-satisfaction model for CBO



Source: Survey Result

In order to establish the impact that each dimension has on the dependant variable, the study checked the Standardized Coefficients. The impacts of “Tangibility”, “Reliability”, “Responsiveness”, “Assurance”, and “Empathy” on customers’ satisfaction with the bank are .217, .191, .172, .159 and .140 respectively, in their descending order indicating that Tangibility has the highest impact on customer satisfaction. Therefore, CBO has to work hard to improve the assurance and empathy dimensions in order to enhance the customer satisfaction level.

VI. Conclusion

The customer gap is evaluated on the basis of five service quality dimensions encompassing Tangibility, Reliability, Responsiveness, Assurance and Empathy. Based on these five service quality dimensions questionnaire is conducted. The questions posed are all pertaining to service quality attribute aiming to explore the respondents expected and perceived service evaluations in all aspects of the service delivery of the bank. This study focused further on the gap between customers’ expectation and their perception of the bank (CBO). The results showed that the overall mean score of perception ($m=4.17$) is higher than expectation ($m=4.08$) in all dimensions, yielding a positive SERVQUAL gap. Hence, customers are satisfied with all dimensions of service quality.

Moreover, all dimensions portray positive gap values which signify that the actual perceived service exceeds the expected service. The findings of the study show the difference between expectation and perception. Tangibility and responsiveness are the most important dimensions with the highest positive gap (0.19 and 0.15) respectively.

Responsiveness shows the highest positive correlation ($r=.639^{**}$, $p<0.01$) with overall service quality and positively correlated with customer satisfaction ($r=.252^{**}$, $p<0.01$) and Assurance demonstrates the second highest positive correlation ($r=.595^{**}$, $P<0.01$) with overall service quality and correlates with customer satisfaction ($r=.261^{**}$, $p<0.01$). The relative importance of the significant predictors is determined by looking at the standardized coefficients. Tangibility has the highest standardized coefficient and the lowest significance, which means tangibility is the best predictor. Tangibility and customer satisfaction had a high correlation of .294 and the value of $R^2=.086$. This indicates that variability in customer satisfaction can be explained by tangibility dimension which accounts 8.6%.

The findings indicate that customers’ perceptions vary according to the nature of service. In this case, the highest customers’ perceptions are demonstrated in the assurance area such as product knowledge, skill to perform service and trustworthy, followed by the empathy area such as timing of the bank, effective communication and personal attention. On the other hand, the low perceptions comparing to the other dimensions are in the responsiveness area, such as telling when services are provided, give prompt service and respond to requests promptly. Because of the wide variation of responses, the bank needs to consider the weak areas in order to meet customer requirement.

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